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STATE OF MICHIGAN

DEPARTMENT OF NATURAL RESOURCES

LANSING



REBECCA A. HUMPHRIES  
DIRECTOR

September 18, 2007

The Honorable Michelle McManus, Chair  
Senate Appropriations Subcommittee  
on Natural Resources  
S-2 Capitol Building  
P.O. Box 30036  
Lansing, Michigan 48909-7536

The Honorable Michael Lahti, Chair  
House Appropriations Subcommittee  
on Natural Resources  
S-1489 House Office Building  
P.O. Box 30014  
Lansing, Michigan 48909-7514

Dear Senator McManus and Representative Lahti:

Pursuant to Section 806, PA 344 of 2006, a combined report of the Department of Natural Resources (DNR) timber treatments, during the second and third quarters of Fiscal Year 2006-2007, is attached.

If you have any questions, please feel free to contact me.

Sincerely,

Sharon M. Schafer, Chief  
Budget and Support Services  
517-335-3276

Attachment

cc: Senate Appropriations Subcommittee Members  
House Appropriations Subcommittee Members  
Ms. Jessica Runnels, Senate Fiscal Agency  
Dr. Kirk Lindquist, House Fiscal Agency  
Mr. Robert Emerson, State Budget Director, Department of  
Management and Budget (DMB)  
Mr. Jacques McNeely, DMB  
Ms. Jennifer Harrison, DMB  
Director Rebecca Humphries, DNR  
Mr. Dennis Fedewa, Chief Deputy, DNR  
Ms. Arminda Koch, Resource Management Deputy, DNR  
Mr. Dennis Fox, Chief of Staff, DNR  
Mr. Daniel Eichinger, Acting Legislative Liaison, DNR  
Ms. Lynne Boyd, DNR  
Ms. Jane Schultz, DNR  
Mr. Joseph Taylor, DNR

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**Department of Natural Resources  
FY 2006-07 Timber Report  
Combined Second and Third Quarters**

**Background**

In December 2005, Michigan's state forest system was certified under both the Sustainable Forest Initiative (SFI) and the Forest Stewardship Council (FSC) third party forest certification protocols. Forest certification protocols require public participation in forest management planning and forest operations. This effort is essential in order for primary wood producers in Michigan to have continued access to national and international markets. The Department of Natural Resources' (Department) investment in forest certification will strengthen Michigan's forest products sector.

The Department's compartment review process has been audited by both the SFI and the FSC and has been recognized as a key public participation mechanism that meets requirements for forest certification.

**Fiscal Year 2006-07 Timber Treatments**

State forest planning and activities, including timber treatments, are conducted within the framework of SFI and FSC forest certification principles and standards. Timber treatments in a given year are based on decisions made two years prior during the compartment review process.

The Fiscal Year 2006-2007 plan of work identified up to 58,709 acres that were approved through the compartment review process that could be available for timber sale preparation. Due to budgetary constraints, the Department's plan of work for the year was 50,181 acres in the first quarter. By June, resources were redeployed and work plans modified to prepare 55,670 acres for sale, an increase of 5,489 acres from the first quarter's plan of work.

Timber sale preparation marking contracts were awarded for 6,375 acres through the first quarter and increased slightly to 6,415 acres through the second quarter. No additional contracts were awarded through the third quarter due to budget shortfalls.

The Department submitted 440 acres of timber sales with Fiscal Year 2007 proposal dates through the first quarter, 11,337 acres through the second quarter, and 22,120 acres through the third quarter. Typically, fewer acres are prepared for sale in the first quarter than during subsequent quarters; often a result of seasonal administrative and management activities.

FY 2007	Total Sales offered in the quarter <sup>1</sup>	Offerings with no bids <sup>2</sup>
1 <sup>st</sup> quarter	105	29
2 <sup>nd</sup> quarter	166	46
3 <sup>rd</sup> quarter	305	85

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<sup>1</sup> Includes sales that have been modified and re-offered.

<sup>2</sup> Includes sales that were no bid more than once.

Poor market demand for timber stumpage continued through the second and third quarters, resulting in a number of offered timber sales that received no bid. Forest management staff revised appraisal and no bid sale processes to be more responsive to market declines.

All timber sales that were “no bid” in Fiscal Year 2007 have been either sold at the minimum bid price, held at the minimum bid price for no more than 21 days, re-appraised and re-advertised, or modified and re-advertised. In some parts of the state, notably the northwestern Lower Peninsula, timber sales that had been re-offered at lower prices were still not selling. Analysis and monitoring of market conditions is continuing.

Throughout the second and third quarters, demand for state forest timber continued to be constrained by recent mill closures within the state and in neighboring states. Cautious bidding for timber was reinforced by high transportation and operating costs, and economic uncertainties. This was reflected in the ongoing housing market slump, which also negatively impacted the furniture industry.